

EXHIBIT G

HIGHLY CONFIDENTIAL



Transcript of Dennis W. Carlton, Ph.D.

Tuesday, August 23, 2022

U.S. v. American Airlines and JetBlue Airways

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Reference Number: 119166

1 of questions they're going to ask me. But I would
2 say my report speaks for itself and that, as I said
3 earlier, my understanding is that Dr. Israel has
4 examined those incentives to expand capacity and that
5 I would say it's important to do so.

6 You can't ignore those incentives and that
7 to the extent, for example, that Dr. Miller or Dr.
8 Town has ignored those, that would be narrow. To me,
9 that covers almost everything I say. Again, I'd be
10 happy to go through my report if you can see
11 something else where I talk about the incentives.
12 But that's my recollection of what I say about the
13 incentives.

14 Q. Let me ask you to assume that there is an
15 alliance without a separate agreement that creates
16 any incentives with respect to expanding or reducing
17 capacity and all you had was the ability to
18 coordinate capacity on a particular route from A to
19 B. Would you expect that arrangement to create
20 adverse horizontal effects?

21 A. Well, I think it depends. Again, if you
22 just look at a market, say, an O and D market and you

1 had two firms and there were two extreme examples.
2 Suppose those are the only two firms and suppose
3 entry is not likely. If you said to me, Dennis, what
4 do you think about a joint venture between those two
5 firms in which they -- the first firm chooses the
6 capacity on the route for the second one. I'd say
7 that doesn't sound desirable to me unless there's
8 some other effect that I'm missing.

9 So I was giving you a stark example of
10 where I would be opposed. On the other hand, it's
11 easy for me to envision situations where someone
12 might say, listen, you know, as part of our venture,
13 let's, for example, make better utilization of planes
14 or better utilization of slots or, you know,
15 something else. Or as in the case of, as I
16 understand the MGIA, as Dr. Israel has explained that
17 it creates an incentive to capacity, you'd have to
18 consider those other things.

19 But if you're just asking me, in my stark
20 example, I'd like to think about it some more, but
21 just in that stark example, it seems like I would --
22 unless I knew more, my initial reaction is I would be

1 probably opposed to allowing a joint venture between
2 the only two carriers between an O and a D unless
3 there's some offsetting considerations that I'm
4 missing.

5 Q. Why would you be opposed to something like
6 that that you just described? What is the mechanism?

7 A. Well, the mechanism is that capacity would
8 be that the two firms would have a collective
9 incentive to reduce capacity and drive up fares.
10 That's again a stark example of an O and a D. And as
11 I talk about in our paper in 2019, you'd have to take
12 account of the vertical effects. And it can be that
13 even on overlap routes, once you have taken account
14 of connecting flights and how the network
15 connectivity is improved as a result of the merger,
16 then all bets are off and you'd have to do a more
17 detailed analysis and that's what we talk about in
18 our 2019 paper.

19 But if you just have -- you know, forget
20 about connecting flights -- you just have two
21 airlines, the Carlton Airline and the Heipp Airline
22 and all they go is between point O and point D and

1 you ask what do I think if Carlton and Heipp got
2 together and had a joint venture to determine
3 capacity. I don't think I'd be in favor of that.
4 All I'm saying is there are a lot of complications,
5 especially in the airline industry, where you have to
6 take kind of network structure.

7 Q. Backing up a little bit, you have
8 testified as an expert witness in court, correct?

9 A. Yes.

10 Q. Have you ever been the subject of a
11 Daubert challenge?

12 A. I believe so, yes.

13 Q. Have you ever had any of your opinions or
14 testimony excluded from evidence?

15 A. My recollection is I've never been in a
16 situation in which a significant opinion was
17 excluded. Mainly my recollection is that judges
18 restrict the testimony taken out of subjects and
19 don't want economists venturing into what's in public
20 policy interest as to how a law should be
21 interpreted. That's my recollection of the
22 instructions that have come from some of these